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NSC FOR WATERS
TREASURY FOR NUGENT AND HIRSON
COMMERCE FOR 4520/ITA/ANESA/OBERG

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TAGS: [ECON](#) [KISL](#) [PGOV](#) [EG](#)
SUBJECT: MUSLIM BROTHERHOOD CLAIMS ARRESTS HURTING ECONOMY

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Arrests Affecting the Economy?

1. (U) Recent postings on the Muslim Brotherhood (MB) website (www.ikhwanweb.com) claim that the arrest of 29 prominent MB-affiliated businessmen (reftels) has negatively impacted Egypt's economy. The articles allege the arrests and subsequent freezing of assets of the MB-affiliated businessmen has caused domestic and foreign investors to withdraw investments from Egypt. An article on January 30 also falsely claimed the arrests caused the Cairo and Alexandria Stock Exchange (CASE) to "plunge" on January 29. The assertions have appeared amidst intense MB criticism of GOE economic reform policies, including claims that the GOE's highly-touted 7% growth rate has widened the gap between rich and poor, benefiting primarily the Mubarak government and its inner circle.

2. (U) GOE officials reject MB claims of economic harm from the arrests, charging in public statements that assets of arrested MB businessmen were used for "money laundering and funding an illegal organization." Capital Market Authority Chairman Hani Sarieldin told journalists that claims that investors were withdrawing their funds from the CASE because of the arrests were "erroneous statements purported by certain internet sites in order to disrupt the market." Sarieldin called for criminal charges against those responsible for the claims. CASE Chairman Maged Shawky told econoff the real cause of recent volatility on the CASE is investor fear of a repeat of the market "correction" that began in February 2006.

Market Fears of "Black Tuesday" Anniversary

3. (U) Most market analysts agree with the CASE Chairman's assessment that local retail investors are responsible for recent volatility on the CASE. Retail investors are most susceptible to irrational fears, such as the upcoming anniversary of last year's market correction, which began in February and culminated on "Black Tuesday," when the market fell 6.4% on March 14, 2006. Foreign and institutional investors, on the other hand, have been net buyers over the last few weeks. While the MB website article acknowledged investor fears of another Black Tuesday, the article claimed, falsely, that the benchmark EFG-Hermes index dropped 12% on January 29, after announcement of the MB asset freeze. In fact, the EFG Hermes index declined only 0.39% on January 29, an improvement over the previous week's results, when the index fell 2.52% on January 24.

New Direction in MB Criticism

14. (SBU) COMMENT: Although the MB's claims are not supported by facts, the claim itself is a new direction in MB criticism of the GOE. By tying detention of its members to a downturn in the economy, the MB is intimating the extensive economic power of the organization. It also appears to be aimed at sending the message that politically-motivated attacks on the MB are bound to work against the GOE, by undermining the government's one area of success, i.e., bringing about economic growth.